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City and Town

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Interim Year Adjustments: An Appraisal Issue

by Paul Corbett

Under current law and practice, the Division of Local Services recertifies values once every three years. All communities, however, have the option of adjusting their assessments in interim years to reflect changes in the real estate market from the previous year. Analysis of the real estate market is key to deciding whether or not to perform interim year adjustments.

The analysis begins with sales verification. The appraiser must identify "arms-length" sales so the analysis will render meaningful results. Arms-length sales are conducted under what is generally considered to be "normal buyer and seller conditions." The investigation can begin with a simple questionnaire sent to new homeowners in the community asking them to describe the circumstances or any unusual conditions of their transactions. Real estate brokers can also be a valuable source of information about the circumstances of sales. Although sales verification is one of the first steps in the analytical process, it does not end there. Often during the analysis of a large numbers of sales, certain sales will "stand out" or "look odd" compared to other similar properties that have sold. These sales need further investigation.

Another early step in the analysis of the real estate market is the gathering of rent, expense and vacancy information about investment type properties. These could include apartment houses, commercial properties and industrial properties. There tends to be fewer sales of these types of properties; therefore, it is the rents, expenses, vacancy rates and capitalization rates¹ the ap-

praiser analyzes to study "the market" for these properties. It is important to realize these properties represent a different aspect of the real estate market and must be analyzed separately.

For residential properties, the appraiser should use assessment-sales ratio (ASR) studies of arms-length sales to analyze "the market." The first series of ratio studies should be a comparison of the existing assessments to the sale prices. These ratio studies will help the appraiser to answer the question, "Should I do an interim year adjustment?" Because the real estate market changes, the answer to that question can change from year to year. If the appraiser decides an interim year adjustment is necessary, the next question is, "What adjustments need to be made?" The appraiser needs to study the initial ratio studies and decide what adjustments to the mass appraisal system would result in assessments that more closely approximate the sale prices.

After each adjustment to the property values, a new series of ASR studies should be run to test the effect of the change. If too many changes are included in a proposed value, the appraiser will not be able to tell which changes had a positive statistical effect and which did not. The statistical parameters for ASR studies done for an interim year adjustment are the same parameters used in a recertification year. Medians must be within 10 percent of 100 percent and coefficients of dispersion (CODs)² must be under the defined limit for each type of property. Also, medians for all classes

of property should be within 5 percent of each other.

Statistics are a tool used by the appraiser to measure the level and equity of assessed values. Statistics are not an appraisal. The appraiser needs to make educated value judgements throughout the interim year adjustment process. Whether interpreting statistical results of ASR studies, analyzing rents, expenses and vacancy rates for investment type properties or deciding on fair and effective adjustments to the property values, the appraiser needs to know "the market" to make good value judgements.

The appraiser must study the real estate market on an on-going basis. This will give the appraiser a stronger sense of the different neighborhoods in the community, and help him develop an awareness of the nuances of that market. ■

1. The process of computing the present value of future income.
2. A statistical measure used to evaluate the capitalization rate.

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From the Deputy Commissioner

In an effort to assist the electronic submission of documentation during a community's certification program, the

Bureau of Local Assessment's publication, *Assessment Certification and Field Review Manual*, is now available on our website at www.dls.state.ma.us/bla. The file provides sample certification spreadsheets in Excel format in addition to the corresponding manual. The individual spreadsheets can be downloaded to the assessors' computer system. If you do not have access to the Internet in your office, please contact Tom Dawley at (617) 626-2389 and he will mail you a copy on a floppy disk.

Once you have downloaded the spreadsheets to your computer, you should not hesitate to customize the worksheets to fit your community's profile and analysis. While the sheets include key features that are customarily seen on a field review, your analysis may require additional data to justify valuation features, such as waterfront property, topography adjustments, views, etc. that are appropriate to your community.

The purpose of the spreadsheets is to provide you with a variety of tools for review and analysis. The DOR certification advisor places a great deal of reliance on your submissions of the electronic spreadsheets when evaluating the assessors' assessment program. Also, when there are changes in the real estate market during the interim years, these spreadsheets can be formatted to provide documentation to support valuation changes.

Joseph J. Chessey, Jr.
Deputy Commissioner

Legal

Are Underground Storage Tanks Real Property?

by James Crowley

Last month, we discussed a recent Appeals Court decision which held that the packaging of salads was a manufacturing activity. The taxpayer was therefore granted a manufacturing classification, and its machinery was exempt from local taxation. We will now consider whether underground chemical storage tanks owned by a manufacturing corporation should be treated as taxable real estate or exempt personal property. Such was the question when the Town of Billerica assessed real estate taxes on eight underground storage tanks. The taxpayer paid the taxes and filed an abatement application, which was denied. There was a prompt appeal to the Appellate Tax Board (ATB), which rendered its decision last October. The case is *Perma, Inc. v. Assessors of Billerica*, (ATB docket nos. F249189 and F257001, 2001).

Perma, Inc. manufactured specialty chemicals, such as soaps and all-purpose cleaners. Adjacent to the plant were eight underground storage tanks. Pumps sent the needed chemicals from these underground tanks through pipes to tanks within the plant where the chemicals were blended. The tops of the underground tanks were three feet from the surface and straps were affixed to them so that they could be easily removed. For many years, the assessors exempted the underground tanks. Beginning in fiscal year 1994, however, the assessors listed the underground tanks on the real property card and valued them collectively at \$11,600.

The assessors argued before the ATB that the real estate tax should be upheld since the tanks were firmly attached to

the land and should be considered part of the real estate. The taxpayer objected to the characterization of the tanks as real property. The taxpayer contended the tanks were designed to be removed easily from the site in order to comply with state and federal environmental regulations. The ATB agreed with the taxpayer that the tanks were personal property integrally involved in the manufacturing process and exempt from local personal property tax.

The ATB was required to interpret M.G.L. Ch. 59 Sec. 2A which states in pertinent part that "Real property for the purpose of taxation shall include all land within the Commonwealth and all buildings and other things thereon or affixed thereto, unless otherwise exempted from taxation under other provisions of law." Courts in Massachusetts have held that the degree of attachment to real estate is critical in determining whether a particular item is real estate. For example, the Supreme Judicial Court held that that an installed bank vault was real property since the vault could not be removed without damaging the vault itself or the building. *Calahan v. Broadway National Bank*, 286 Mass. 473 (1934).

In the case at hand, however, the ATB noted that Perma, Inc.'s underground tanks could be removed from the site easily and at little expense. Analyzing the nature of the items, the ATB held the tanks were personal property.

Having ruled that the tanks were personal property, the ATB held that the tanks were exempt from local tax as machinery of a manufacturing corporation. The ATB reasoned that the tanks were thermos-like containers constituting machinery since they were an integral part of the manufacturing process. The ATB ruled the tanks were part of "one great integral machine" which was

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in Our Opinion

Focus

on Municipal Finance

Can Assessors Change Your Property Value Every Year?

by Marilyn Browne and Donna Demirai

Yes, assessors not only can but, in many cases, should adjust city or town values every year. Massachusetts' assessors are responsible for full and fair cash valuations in their communities annually as of January 1 (MGL Ch. 59 Sec. 2A). Everyone expects assessors to adjust valuations yearly to reflect changes in the tax base due to new construction, alterations, demolitions, etc. After all, it is only fair that people who have built new homes or businesses pay their fair share of the tax burden (levy). Why is it that when assessors change valuations to adapt to fluctuations in the real estate market that they are often questioned about their authority to do so? Certainly, if one area of a city or town is more desirable and commands a premium for property, then those owners should see their val-

ues increase accordingly. Conversely, if a neighborhood is less desirable and prices have fallen, then those taxpayers should see their real estate value decline correspondingly. The reason values should reflect full and fair cash value annually is so that the property tax levy is fairly distributed.

Every community must revalue all of its real and personal property once every three years; the two intervening years are referred to as interim years. When values are not annually updated and the market is changing, either one of two situations occurs. In the first situation there is an appreciating real estate market that is commanding sales prices above their assessed values. When sale prices continue to climb and values are not reflective of this change, taxpayers are often shocked when their community is recertified in the third year. This past certification year, FY2002, residential assessed values skyrocketed in some communities, which could lead to a loss of trust in the assessing practices in their communities. In the sec-

ond situation where there is a depreciating market with sales prices declining, history tells us that property owners are not tolerant of assessors' keeping their property values fixed. It seems more unpalatable to have one's assessed value greater than the price one can expect to receive from its sale. Both examples show the need to keep pace with the market.

Not adjusting assessments in a fluctuating market is ill-advised not only from a taxpayer's perspective but also from a municipal financial standpoint. Homes and businesses that are over-assessed create the need for abatements to taxpayers. These funds could be better spent elsewhere had interim year adjustments occurred and eliminated the need for some of the abatements.

The Bureau of Local Assessment (BLA) has been encouraging interim year adjustments for many years. In 1990 the BLA issued a *Bulletin* describing interim year adjustments and in 1993 the bureau felt the issue was so important that it reissued *Guidelines for the Development of a Minimum Reassessment Program* to include a section on this topic.

With the advent and widespread use of computerized mass appraisal systems in the late 1980s and the subsequent availability of low cost personal computers early in the 1990s, assessors were given the mechanical tools to make annual adjustments possible. Assessors with the requisite knowledge of mass appraisal theory, statistical analysis, spreadsheet use and funding, could accomplish their statutory responsibility of keeping assessed values current with the real estate market. No longer was it so cost-prohibitive or so labor-intensive that most assessors felt they could only revalue once every three years when

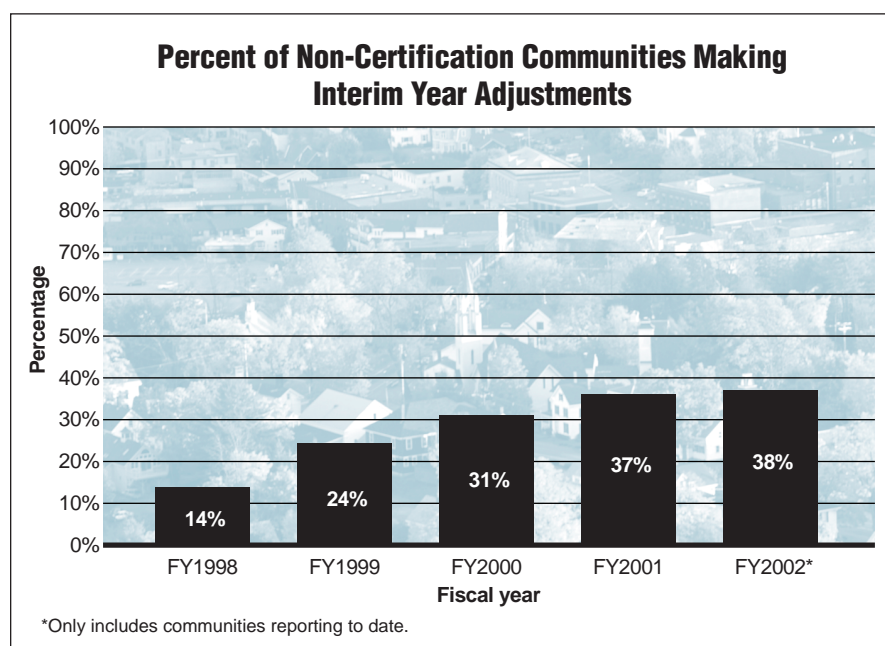


Figure 1

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Can Assessors Change Your Property Value Every Year?

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they were required to have their values certified by BLA.

As a result the Bureau has concluded that communities should make valuation changes more frequently than only

once every three years. To test our hypothesis, we first looked to see how many cities and towns were making interim year adjustments to residential properties between the fiscal 1998 and 2002. For the purposes of this article,

residential properties include all residential classes, such as single family homes, condominiums, multiple family dwellings, apartments, etc. Next we analyzed the percent changes being made to residential properties in the third year of a three-year cycle (FY2002) as an indicator of whether or not changes should have been made in the previous year or two. Since property appreciates at different rates in different parts of the Commonwealth, we explored valuation changes regionally. We divided the state into five regions: Southeast, Northeast, Cape and Islands, Central and Western Massachusetts. Residential data used in the study was obtained from the "Tax Base Levy Growth Form — LA13" submitted annually by assessors for fiscal years 1998 through 2002.

The first analysis was to ascertain how many communities were making interim year adjustments in the specified time period. We elected to use only non-certification communities since all communities, except two towns in FY1998, found it necessary to adjust values during their certification year. In fiscal year 2002, 38 percent of non-certification municipalities made valuation adjustments as compared with only 14 percent in FY1998. As you look at *Figure 1*, it is apparent that more communities are making interim year adjustments each year. *Table 1* shows how many municipalities in each region of the state are adjusting values. Interestingly, FY1998 and FY2001, as well as FY1999 and FY2002, are the same sets of communities and demonstrate how many more of the same cities and towns are conducting interim year adjustments. Particularly noteworthy is the Cape with seven more communities (67 percent) and the Northeast with 19 more communities (63 percent) making interim year adjustments in 2001 as compared to FY1998. The western section of the state consistently makes fewer adjustments than the rest of the areas of the state in all of the years reviewed.

Percent of Non-Certification Communities Making Interim Year Adjustments

Fiscal year	Region	Number of communities	Total	Pct. of total
1998	Northeast	14	52	27%
	Southeast	9	48	19%
	Cape	3	15	20%
	Central	3	35	9%
	West	0	61	0%
	Total	29	211	14%
1999	Northeast	29	61	48%
	Southeast	12	49	24%
	Cape	3	11	27%
	Central	9	38	24%
	West	0	64	0%
	Total	53	223	24%
2000	Northeast	40	71	56%
	Southeast	24	53	45%
	Cape	7	20	35%
	Central	7	47	15%
	West	4	77	5%
	Total	82	268	31%
2001	Northeast	33	52	63%
	Southeast	18	48	38%
	Cape	10	15	67%
	Central	9	35	26%
	West	8	61	13%
	Total	78	211	37%
2002*	Northeast	40	61	66%
	Southeast	18	48	38%
	Cape	5	10	50%
	Central	13	38	34%
	West	7	62	11%
	Total	83	219	38%

*Only includes communities reporting to date.

Table 1

Can Assessors Change Your Property Value Every Year?

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FY2002 Average Residential Adjustments, All Communities

Region	No adjustments in FY00 or FY01		Adjusted in either FY00 or FY01		Adjusted in both FY00 and FY01	
	Number of communities	Average pct. adjusted	Number of communities	Average pct. adjusted	Number of communities	Average pct. adjusted
Northeast	8	43.4%	17	14.6%	43	12.6%
Southeast	11	25.8%	10	15.7%	20	17.5%
Cape	2	89.1%	6	45.5%	6	23.1%
Central	17	25.7%	5	15.1%	11	10.5%
West	26	12.7%	11	7.8%	3	9.0%
Total	64	25.1%	49	17.1%	83	14.1%

Note: Only 332 communities reporting FY2002 information to date. Of those reporting, 136 communities made no adjustments in FY2002. Therefore, they are not included in the data above.

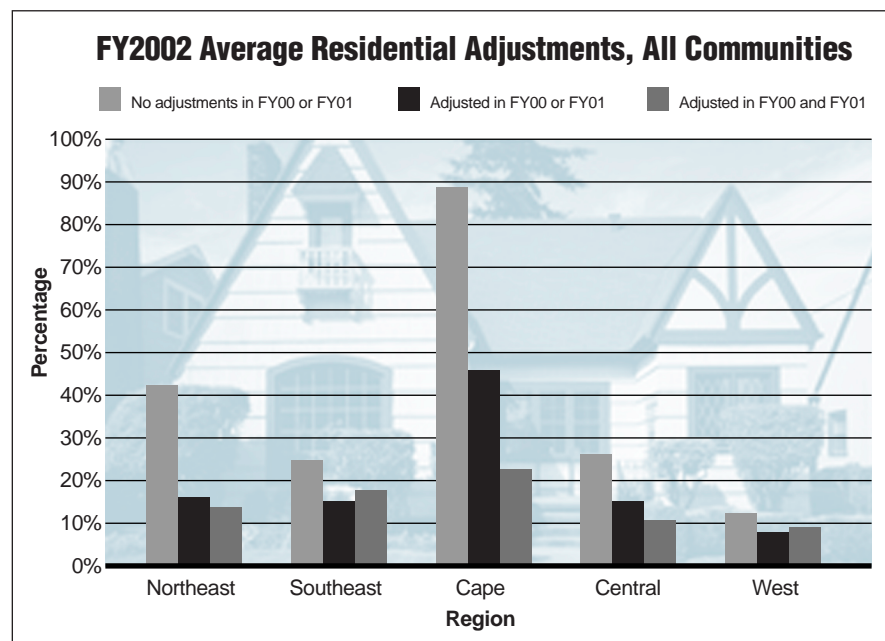
Table 2

The second analysis looks at the aggregate percent change to residential properties for all communities in FY2002 with data submitted at the time this article was written. Three years of data were looked at to see what the average residential adjustments were as well a regional break down. *Table 2* totals clearly shows that municipalities that did interim year adjustments in both of the two years before FY2002 required significantly smaller percentage adjustments in FY2002. Overall, municipalities that made interim year adjustments in FY2000 and FY2001 needed to adjust residential values by only 14.1 percent, compared to those that made no adjustments in either of the two preceding years and which needed to increase residential values 25.1 percent. Regionally, communities in the Northeast made an average of 12.6 percent change if they had interim year adjustments in the past two years while other communities in the same area had to adjust residential values some 43.4 percent on average. Western Massachusetts showed the least percentage adjustments of 9.0 percent if adjusted in the two previous years and 12.7 percent if no adjustments had been made. The Cape had two communities that came close to doubling their residential values in FY2002 (89.1 percent) as no annual adjustments had been made in the past two years.

In every region of the Commonwealth in FY2002, residential values required average increases from 9 to 23.1 percent for communities that made interim year adjustments in the previous two years. This indicates to the Bureau that communities statewide should be reviewing their data annually and making appropriate adjustments to value. (For more information on appraisal issues involved in making adjustments to val-

uation, please see *Interim Year Adjustments: An Appraisal Issue*, an article written by Paul Corbett in this issue of *City & Town*.)

Not only is making interim year adjustments solely within the prerogative of local boards of assessors, it is the only way to ensure tax equity and to fairly treat local property taxpayers. ■

**Figure 2**

Spring Training Opportunities

The exemption for small accounts will apply for the fiscal year beginning July 1 after the acceptance by vote, unless the vote specifies another implementation date. FY02 is the first year the exemption may be implemented. The following is a list of communities that have notified the Division of Local Services that they have accepted the small accounts legislation and the minimum value required for personal property to be taxed in those communities. ■

<u>Community</u>	<u>Amount</u>	<u>Community</u>	<u>Amount</u>
<u>2002</u>			
Amesbury	\$ 2,000	Longmeadow	\$10,000
Belchertown	1,500	Lynn	1,000
Berlin	2,000	Medfield	3,000
Boston	10,000	New Marlborough	10,000
Boxford	3,001	Norwell	10,000
Canton	3,000	Richmond	2,999
Chatham	10,000	Sharon	500
Cheshire	10,000	Shelburne	5,000
Clinton	10,000	Shutesbury	1,500
Concord	10,000	Somerset	10,000
Douglas	4,999	Sudbury	5,000
Dover	1,000	Topsfield	999
Dudley	10,000	West Newbury	10,000
Everett	10,000	Wilbraham	10,000
Goshen	500	Williamstown	10,000
Harvard	1,000		
Hatfield	2,000		
Hingham	5,000		
Leverett	5,000		
Littleton	10,000		
		<u>2003</u>	
		Holliston	3,000
		Hubbardston	5,000
		Rochester	1,000
		Southwick	5,000

Table 3

DOR Internet Programs

The Massachusetts Department of Revenue (DOR) continues to develop and implement online systems that make it easier for public and private sector entities to comply with tax and new hire reporting obligations.

range of production for all other crops is based on soil productivity. Information regarding soil ratings and capabilities are now available on the Internet at www.dls.state.ma.us/bla.

The FVAC's adopted methodology should be considered in all local analyses. All values adopted outside the range recommended by the FVAC must be supported by a comprehensive study of local factors influencing value together with a detailed description of the selected valuation models and resulting use value estimates. ■

To ensure that your municipality is aware of current and upcoming Internet programs, DOR will e-mail notifications to your designee. The recipient can then forward the notice to the appropriate department. Please send the e-mail address of the town clerk or other designee to PDUmail@shore.net. ■

DLS Update

Proposition 2½ Ballot Questions

The Division of Local Services (DLS) has recently updated its publication, "Proposition 2½ Ballot Questions: Requirements and Procedures." This booklet discusses types of Proposition 2½ ballot questions, referendum procedure, relationship to appropriations and the role of the Department of Revenue. It also contains Proposition 2½ ballot question forms as well as DLS staff contacts.

This publication is also available on the DLS website under "Publications and Forms." Booklets can be obtained by calling Joan Grouke at (617) 626-2353.

Charter School Update

The Massachusetts Department of Education (DOE) reports that there are 42 charter schools currently operating in the state. This includes 36 Commonwealth and six Horace Mann charter schools. A Commonwealth charter school is a public school that operates independent of any school committee under a five-year charter granted by the state Board of Education. A Horace Mann charter school operates under a five-year charter approved by the local school committee, the local teachers' union president and the Board of Education.

In addition, four new Commonwealth charter schools and one Horace Mann charter school are scheduled to open in the Fall of 2002. The state has also approved the opening of five Commonwealth charter schools for the Fall of 2003.

State law allows up to 120 charters to be granted in Massachusetts, including no more than 72 Commonwealth and 48 Horace Mann charters. Since 1994, a total of 217 applications for establishing charter schools have been received by DOE.

The primary source of funding for Commonwealth charter schools comes from tuition payments from the sending district. These tuition payments are based on the average per pupil tuition from the districts in which its students reside. Horace Mann charter schools receive their funding directly from the local school committee based on the annual budget submission. Two other sources of funding for Horace Mann and Commonwealth charter schools are government grants and private fund development.

Out of the 42 charter schools currently operating, DOE lists 27 as located in urban areas, 11 in suburban communities and four in rural areas. The size of the schools range from three with a student population of less than 100 to eight with more than 500 students.

In May 2001, DOE published "The 2001 Massachusetts Charter School Initiative Report." This report provides a history of the charter school initiative and a brief summary of the charter schools operating in the Commonwealth. To obtain a copy of the report, call the DOE Charter School office at (781) 338-3227, or e-mail Istanford@doe.mass.edu.

Drinking Water Protection Grants

DEP's Source Water Protection and Wellhead Protection Grant Programs will make \$625,000 available during Round IV. The Requests for Responses (RFR) will be available at www.comm-pass.com by May 1, 2002.

Wellhead Protection Grant Program

Community public water systems, municipalities containing public water supplies or protecting public water supplies, and water systems that serve schools are eligible to apply for Wellhead Protection grants. Examples of projects funded in the past include: removing underground storage tanks; installing fences; improving security; and mapping stormwater discharges.

Source Water Protection Grant Program

Public water suppliers, volunteer town boards, regional planning agencies, watershed groups and consultants are eligible to apply for Source Water Protection grants to conduct projects at surface and ground water sources. Examples of projects funded in the past include: improving emergency planning and conducting drills; developing watershed or wellhead protection plans; hiring local watershed protection staff; and designing stormwater improvements.

Information meetings will be conducted on the following dates:

- Thursday, April 11, 2002, at 11:00 am: DEP Worcester, 627 Main Street.
- Tuesday, April 16, 2002, at 11:00 am: DEP Boston, One Winter St., 2nd fl., Room A.
- Thursday, April 18, 2002, at 1:00 pm: DEP Lakeville, 20 Riverside Drive.

For information prior to May 1, contact Kathy Romero at (617) 292-5727 or Catherine Sarafinas at (617) 556-1070. Round IV fact sheets (including directions to meetings) and lists of projects funded during prior rounds are available at www.state.ma.us/dep. ■

DLS Profile: BOA Field Representatives

Dennis Mountain and **James Podolak** work for the Bureau of Accounts (BOA) in the Division of Local Services' (DLS) Springfield regional office. Dennis, a former town accountant in Lee, has worked for DLS for 17 years. In May 1999, Dennis was promoted to supervisor of all BOA staff in the Springfield and Worcester regional offices. In this capacity, he is responsible for overseeing BOA field staff work in 200 cities and towns. Dennis is also the BOA field representative for six communities. He holds a bachelor's degree in marketing from Central Connecticut State College.

Jim Johnson, Director of Accounts, offered the following comment.

"Dennis has been a key BOA field rep for 17 years and has helped resolve serious municipal financial situations in cities such as Springfield and Pittsfield. He is also highly regarded as an instructor in various DLS training programs and statewide schools for associations of local finance officers."

Jim Podolak has worked for BOA for 10 years and serves 29 communities located in Berkshire, Hampshire and Hampden counties. He is a native of western Massachusetts and has a strong interest in local government. Jim received a bachelor's degree from the University of Massachusetts at Amherst and a master's degree in business administration from Western New England College.

According to Elaine Markham, town accountant in Stockbridge, "Jim helped me a great deal during my first year as town accountant. He guided me through closing the books on the fiscal year and with completing Schedule A. There were a lot of things that were foreign to me but Jim did a good job answering my questions." ■



Dennis Mountain



Jim Podolak

USTs

continued from page two

a phrase used by the Supreme Judicial Court to describe an electric or gas manufacturing and distribution system. In the ATB's view, the tanks were machines similar to the soda fountains and dispenser machinery at a luncheon counter. *Assessors of Haverhill v. J.J. Newberry Co.*, 330 Mass. 469 (1953).

Consequently, the ATB held that the underground storage tanks are personal property. There was no further appeal of this decision. ■

City & Town

City & Town is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.

Joan E. Grouke, Editor

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